

Message Text

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ORIGIN EB-08

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TREAS: J LANG

-----191626Z 008735 /66

R 182133Z MAR 77
FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: EFIN, ID

SUBJECT: FEDERAL RESERVE BANK EXAMINATIONS

1. DEPARTMENT HAS LEARNED THAT THE CENTRAL BANK OF INDONESIA HAS CABLED AN INQUIRY TO THE FEDERAL RESERVE BANK IN NEW YORK CONCERNING REPORTS THAT THE FEDERAL RESERVE BANK EXAMINERS HAD MADE QUOTE SPECIAL MENTION UNQUOTE OF LOANS TO INDONESIA BY SEVERAL U.S. BANKS. THE FOLLOWING INFORMATION ON FEDERAL RESERVE EXAMINING PROCEDURES IS FOR USE ON AN IF ASKED BASIS. THIS INFORMATION IS CONSISTENT WITH REPLY SENT BY FEDERAL RESERVE TO INDONESIA CENTRAL BANK.

2. NEITHER THE FEDERAL RESERVE BOARD NOR ANY RESERVE BANK CENTRALLY RATES OR CLASSIFIES COUNTRIES IN TERMS OF RISK. ALL EVALUATIONS OF INDIVIDUAL LOANS AND LOAN PORTFOLIOS OF PARTICULAR BANKS ARE PERFORMED BY BANK EXAMINERS BASED ON THEIR INDIVIDUAL JUDGMENT.

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3. FEDERAL RESERVE EXAMINERS EVALUATE EACH LOAN ON ITS INDIVIDUAL MERITS. "COUNTRY RISK"--THE POSSIBILITY THAT PAYMENT OF PRINCIPAL OR INTEREST WILL BE INTERRUPTED BECAUSE OF SOVEREIGN ACTIONS OR INABILITY TO OBTAIN THE NEEDED FOREIGN CURRENCIES--IS ONLY ONE OF MANY FACTORS WHICH ARE CONSIDERED. LOANS TO A COUNTRY ARE NOT GIVEN

BLANKET SPECIAL MENTION.

4. THE FEDERAL RESERVE DOES NOT DICTATE LENDING POLICY OF INDIVIDUAL BANKS. HISTORICALLY, MOST LOANS WHICH HAVE BEEN CITED BY EXAMINERS BECAUSE OF COUNTRY RISK HAVE BEEN PLACED IN THE SPECIAL MENTION CATEGORY, ALTHOUGH, IN A FEW MORE SERIOUS CASES, SUCH AS FAILURE TO PERFORM, LOANS HAVE BEEN PLACED IN ONE OF THE THREE CLASSIFICATION CATEGORIES (SUBSTANDARD, DOUBTFUL, OR LOSS). THE SPECIAL MENTION CATEGORY IS USED BY EXAMINERS PRIMARILY TO POINT OUT TO MANAGEMENT THAT A CERTAIN LOAN MAY ENTAIL MORE THAN USUAL RISK. UNLIKE CLASSIFIED LOANS, HOWEVER, SPECIAL MENTION LOANS ARE NOT CONSIDERED BY THE EXAMINER TO BE BELOW BANK QUALITY. MOREOVER, PLACING OF A LOAN IN THIS CATEGORY MAY BE AS MUCH A FUNCTION OF WHETHER THE EXAMINER BELIEVES MANAGEMENT IS ON TOP OF THE SITUATION AS IT IS A FUNCTION OF THE QUALITY OF THE CREDIT (I.E., THE SAME LOAN MAY BE SPECIAL MENTION AT ONE BANK BUT NOT ANOTHER).

5. FYI: THE BANK EXAMINATION REPORT IS CONFIDENTIAL INFORMATION BETWEEN THE FEDERAL RESERVE AND THE INDIVIDUAL BANK. OFFICIAL USG AGENCIES DO NOT INTERFERE WITH OR ATTEMPT TO INFLUENCE BANK EXAMINATION PROCEDURES. ADDITIONALLY, TITLE 18 U.S. CODE 641 PROHIBITS OFFICERS OF EXAMINED BANKS TO DISCLOSE THE RESULTS OF EXAMINATIONS. BANKERS SHOULD NOT BE ENCOURAGED TO DISCLOSE INFORMATION FROM THE EXAMINATION REPORTS. ANY INFORMATION WHICH BANKERS DO DISCLOSE SHOULD NOT BE DISSEMINATED FURTHER. END FYI.

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
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Concepts: POLICIES, BANK LOANS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: C H ERVIN
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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From: STATE
Handling Restrictions: n/a
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Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
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Previous Handling Restrictions: n/a
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Review Event:
Review Exemptions: n/a
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